

Message Text

PAGE 01 NATO 06270 181747Z

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SUBJ: ECONADS: GERMAN REPORT ON JAPANESE TRADE RELATIONS WITH
STATE ECONOMY COUNTRIES

REF: AC/127-WP/444

1. ALTHOUGH IT IS DATED NOV 4, THE REFDON WAS NOT AVAILABLE FOR
POUCHING TO WASHINGTON UNTIL NOV 14. IT IS A REPORT CONTRIBUTED
BY THE GERMAN DELEGATION ON "JAPAN'S TRADE RELATIONS WITH STATE
ECONOMY COUNTRIES" AND, AS NOTED IN SEPTTEL TO DEPARTMENT (USNATO 6236)

IS ON THE NOV 20 ECONADS AGENDA.

2. WE ARE NOW POUCHING COPIES TO THE INFO ADDRESSEE POSTS,
BUT, AS OF POSSIBLE ASSISTANCE TO THE DEPARTMENT IN CASE IT
WISHES TO COMMENT ON THE REPORT, WE QUOTE SELECTED PARAGRAPHS
BELOW. BEGIN TEXT:

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PAGE 02 NATO 06270 181747Z

I. TRADE STATISTICS

THE FINAL JAPANESE CUSTOMS STATISTICS IN RESPECT OF
PURCHASING COUNTRIES HAVE NOW BEEN PUBLISHED FOR THE FIRST
QUARTER OF 1975. IN ADDITION, PROVISIONAL FIGURES COVERING

THE SECOND QUARTER AND FIRST HALF OF THE YEAR ARE AVAILABLE FOR THE MAJOR PURCHASING COUNTRIES (CHINESE PEOPLE'S REPUBLIC AND SOVIET UNION) AND FOR GROUPS OF COUNTRIES (THE SMALLER STATE ECONOMY COUNTRIES IN EASTERN EUROPE AND IN ASIA). THESE STATISTICS ARE SHOWN AT ANNEX, TOGETHER WITH REFERENCE FIGURES FOR LAST YEAR AND PERCENTAGE CHANGES IN IMPORTS AND EXPORTS.

2. ACCORDING TO THE STATISTICS, JAPANESE TRADE WITH STATE ECONOMY COUNTRIES SHOWS MUCH THE SAME TREND - ALTHOUGH IT IS MORE PRONOUNCED - AS THAT OF THE FEDERAL REPUBLIC. ALTHOUGH OVERALL EXPORTS FOR THE FIRST HALF OF THE YEAR WERE DOWN AGAIN, IN JAPAN AS WELL, EXPORTS TO STATE ECONOMY COUNTRIES (INCLUDING THE GDR) ROSE, IN CONTRAST, BY 66.6 PCT AS COMPARED WITH THE SAME PERIOD IN THE PREVIOUS YEAR (FEDERAL REPUBLIC: 22.2 PCT) AND, WHEN EXPRESSED AS A PROPORTION OF OVERALL EXPORTS, WENT UP FROM 6.1 PCT IN THE FIRST HALF OF 1974 (FEDERAL REPUBLIC: 6.1 PCT LIKEWISE) TO 9.1 PCT IN THE FIRST HALF OF 1975 (FEDERAL REPUBLIC: 7.7 PCT). HERE AGAIN, THE SOVIET UNION HAS ACCOUNTED FOR A SUBSTANTIAL PROPORTION OF THE INCREASE IN EXPORTS (142.5 PCT; FEDERAL REPUBLIC: 66.3 PCT).

3. JAPANESE IMPORTS, ON THE OTHER HAND, HAVE FALLEN SOMEWHAT MORE THAN GERMAN IMPORTS (-5.4 PCT AND -1 PCT RESPECTIVELY). IN THE FIRST HALF OF 1974, THERE WAS A SLIGHT DEFICIT IN JAPAN'S TRADE BALANCE WITH THE STATE ECONOMY COUNTRIES (-DM. 40 MILLION), WHEREAS IN THE FIRST HALF OF 1975 THE BALANCE SHOWED A SURPLUS OF SOME DM. 2.6 MILLIARDS (FEDERAL REPUBLIC: DM. 4.5 MILLIARDS AS COMPARED WITH DM. 2.9 MILLIARDS IN THE FIRST HALF OF 1974). TRADE WITH THE SOVIET UNION, AFTER SHOWING A DEFICIT OF ABOUT DM. 807 MILLION, IS NOW IN SURPLUS (ABOUT DM. 710 MILLION). THE SURPLUS IN TRANSACTIONS WITH THE CHINESE PEOPLE'S REPUBLIC HAS INCREASED THREEFOLD, FROM ABOUT DM. 370 MILLION TO ABOUT DM. 1.16 MILLIARD.

4. THE EFFECTS OF THE DEVELOPMENTS DESCRIBED ABOVE HAVE BEEN THE SAME FOR JAPAN AS FOR THE FEDERAL REPUBLIC. NO-LIMITED OFFICIAL USE
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PAGE 03 NATO 06270 181747Z

WITHSTANDING ITS ATTEMPT TO ACHIEVE LONG-TERM STABILITY AND TO DIVERSIFY ITS IMPORTS OF RAW MATERIALS, JAPAN DOES NOT APPEAR TO HAVE FOUND A REMEDY TO THE SITUATION.

III. OTHER IMPORTANT FACETS OF ECONOMIC RELATIONS

(A) SOVIET UNION

8. AT THE REQUEST OF THE RUSSIANS, WHAT WAS TERMED A "MEETING OF HIGH OFFICIALS" OF THE JOINT SOVIET-JAPANESE ECONOMIC COMMITTEE TOOK PLACE IN TOKYO FROM 9TH TO 12TH JUNE, 1975. IT WAS THE THIRD MEETING OF THIS KIND, CALLED, WHERE NECESSARY, BETWEEN PLENARY SESSIONS OF THE JOINT ECONOMIC-COMMITTEE. THE SOVIET DELEGATION OF FIVE WAS HEADED BY

MR. SEMICHASTNOB, VICE-MINISTER FOR FOREIGN TRADE AND CHAIRMAN OF THE SOVIET-JAPANESE ECONOMIC COMMITTEE. THE AGENDA WAS GIVEN OVER TO THE COMMITTEE'S OFFICIAL PROJECTS FOR SIBERIA - NOW IN THE PROCESS OF IMPLEMENTATION OR UNDER NEGOTIATION (THE PORT OF VRANGEL, WOOD CHIPS AND PULP, COAL FROM SOUTH YAKUTSKAYA, THE SECOND FORESTRY AGREEMENT FOR EASTERN SIBERIA, NATURAL GAS FROM YAKUTSKAYA, NATURAL GAS AND MINERAL OIL ON THE SAKHALIN CONTINENTAL SHELF, PAPER AND CELLULOSE FROM EASTERN SIBERIA). THE TYUMEN PROJECT WAS NOT DISCUSSED.

9. THE ACTUAL MEETING PRODUCED NO TANGIBLE RESULTS. IT DID, HOWEVER, SPEED UP THE NEGOTIATIONS ON CREDIT AGREEMENTS IN RESPECT OF THE YAKUTSKAYA AND THE SAKHALIN PROJECTS, WHICH WERE INITIALED SHORTLY AFTERWARDS (SEE SECTION IV, PARAGRAPHS 2(A) AND (D) BELOW).

10. AS REGARDS PAPER AND CELLULOSE FROM EASTERN SIBERIA, THE JAPANESE HAVE INDICATED THAT THEY ARE WILLING TO START EARLY NEGOTIATIONS ON A GENERAL AGREEMENT. THE SOVIET UNION HAS ASKED JAPAN TO SUPPLY NOT ONLY MACHINERY AND EQUIPMENT FOR CONSTRUCTION OF THE PLANT BUT ALSO TO UNDERTAKE THE ACTUAL CONSTRUCTION WORK. THE JAPANESE HAVE DRAWN ATTENTION TO SUCH QUESTIONS AS THE DIFFICULT GEOGRAPHICAL CONDITIONS BUT HAVE AGREED TO NEGOTIATE ON THIS MATTER LIKEWISE.

11. AT JAPAN'S REQUEST, A JAPANESE DELEGATION WILL BE GOING, THIS AUTUMN, TO INSPECT PROGRESS ON RAILWAY WORKS WHICH HAVE BEEN PUT IN HAND IN CONNECTION WITH THE YAKUTSKAYA AND LIMITED OFFICIAL USE
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PAGE 04 NATO 06270 181747Z

VRANGEL PROJECTS. IT HAS BEEN AGREED THAT THE SEVENTH PLENARY SESSION OF THE JOINT ECONOMIC COMMITTEE WILL BE CONVENED IN TOKYO NEXT YEAR AFTER THE ADOPTION OF THE TENTH SOVIET FIVE-YEAR PLAN (1976-1980).

IV. EXPORT FINANCE

(A) CHINESE PEOPLE'S REPUBLIC

17. IN THE COURSE OF NEGOTIATIONS ON JAPANESE STEEL DELIVERIES IN THE FIRST HALF OF 1975, IT WAS AGREED THAT

PAYMENT OF ABOUT 80 PCT OF THESE DELIVERIES, VALUED AT SOME \$400 MILLION, WOULD BE DELAYED FOR A YEAR AND THAT THE EXIMBANK WOULD NOT BE INVOLVED IN THE TRANSACTION. SUPPLIER CREDITS FROM THE EXIMBANK WERE DISCUSSED IN CONNECTION WITH THE BALANCE OF THE ORDER, WHICH IS FOR WELDLESS PIPES. HOWEVER, THE JAPANESE HAVING INSISTED ON A MIXED INTEREST RATE OF 7.8 PCT AND THE CHINESE BEING UNWILLING TO GO BEYOND 7.0 PCT, AFTER POINTING OUT THAT EASIER RATES HAD BEEN CHARGED SO FAR FOR JAPANESE DELIVERIES OF CAPITAL GOODS, IT WAS FINALLY AGREED THAT THE ORDER SHOULD BE PAID FOR IN CASH.

(B) SOVIET UNION

18. THE CREDIT AGREEMENT FOR THE FINANCING OF THE FIRST
PHASE OF THE YAKUTSKAYA PROJECT (INVOLVING ABOUT \$100 MILLION)
WAS INITIALED ON 14TH JULY, 1975.

19. MR. ALCHIMOV, SOVIET VICE-MINISTER FOR FOREIGN TRADE,
AVAILED HIMSELF OF THIS OPPORTUNITY TO ASK THE JAPANESE EXIMBANK
FOR A FURTHER CREDIT OF \$150 MILLION FOR THE SOUTHERN YAKUTSKAYA
COAL PROJECT, IN ADDITION TO THE \$450 MILLION OR SO, ORIGINALLY
ARRANGED, ON THE GROUNDS OF INCREASED PRICES FOR MACHINERY AND
PLANT. EXIMBANK POINTED OUT THAT ONLY ABOUT 40 PCT OF THE AGREED
CREDIT HAD BEEN USED SO FAR AND SUGGESTED THAT THE RUSSIANS
SHOULD FIRST DISCUSS THE MATTER WITH THE JAPANESE FIRMS
PARTICIPATING IN THE PROJECT.

20. AN AGREEMENT ON THE LINE OF CREDIT OF \$240 MILLION
GRANTED BY EXIMBANK AND A CONSORTIUM OF 23 MERCHANT BANKS TO
FINANCE THE EXPORT OF FOUR AMMONIUM PLANTS TO EUROPEAN RUSSIA
WAS SIGNED ON 22ND JULY, 1975.

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PAGE 05 NATO 06270 181747Z

21. THE CREDIT AGREEMENT TO FINANCE THE SKHALIN PROJECT
(ABOUT \$150 MILLION IN ALL) WAS INITIALED ON 24TH JULY, 1975.
END TEXT.BRUCE

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